

Message Text

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42

ACTION EB-11

INFO OCT-01 EUR-25 EA-11 NEA-14 ISO-00 AEC-11 AID-20

CEA-02 CIAE-00 CIEP-02 COME-00 DODE-00 FEA-02 FPC-01

H-03 INR-10 INT-08 L-03 NSAE-00 NSC-07 OMB-01 PM-07

RSC-01 SAM-01 SCI-06 SP-03 SS-20 STR-08 TRSE-00 PA-04

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FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 2027

INFO AMEMBASSY ABU DHABI

AMEMBASSY BEIRUT

AMEMBASSY BONN

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY PARIS

AMEMBASSY TEHRAN

AMEMBASSY TRIPOLI

C O N F I D E N T I A L TOKYO 6678

E.O. 11652: GDS

TAGS: ENRG, JA

SUBJECT: EXXON ANNOUNCES POSSIBLE FUTURE OIL SUPPLY
CUT TO JAPAN

SUMMARY: EXXON HAS TOLD ITS NON-AFFILIATED JAPANESE
CUSTOMERS THAT IT MAY NOT BE ABLE TO CONTINUE TO SUPPLY
THEM WITH OIL AFTER CURRENT CONTRACTS EXPIRE FOR THE MOST
PART WITHIN NEXT TWO YEARS. NEW POLICY, WHICH APPARENTLY
APPLIES WORLD WIDE, COULD AFFECT FIVE PERCENT OF JAPAN'S
OIL SUPPLIES. JAPANESE
AWARE OTHER MAJORS MAY FOLLOW
SAME PATTERN. END SUMMARY.

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1. PRESIDENT OF EXXON INTERNATIONAL, C. PEYTON, VISITED

JAPAN WEEK OF MAY 13 FOR MEETINGS WITH EXXON'S MAJOR NON-AFFILIATED CUSTOMERS. DURING MEETINGS, PEYTON INFORMED CUSTOMERS THAT EXXON MAY NOT BE ABLE TO SUPPLY THEM WITH OIL AFTER CURRENT CONTRACTS EXPIRE.

2. EXXON OFFICIAL EXPLAINED TO EMBASSY THAT RECENT CALCULATIONS HAD INDICATED THAT SUPPLY AVAILABLE TO COMPANY COULD FALL SHORT OF DEMAND FOR COMPANY'S CRUDE OIL BY ONE MILLION B/D WITHIN NEXT YEAR OR TWO -- A SHORTFALL OF MORE THAN EXXON'S TOTAL INTERNATIONAL SALES TO NON-AFFILIATED CUSTOMERS. THIS PRIMARILY DUE TO NATIONALIZATIONS AND FACT THAT PRODUCING COUNTRIES INCREASINGLY TAKING ROYALTY PAYMENTS IN OIL RATHER THAN IN CASH. IT HAD THUS BEEN DECIDED TO ALERT ALL NON-AFFILIATED CUSTOMERS AROUND WORLD NOT TO COUNT ON FUTURE SUPPLIES FROM EXXON.

3. EXXON SOURCE SAID COMPANIES SALES TO NON-AFFILIATED COMPANIES IN JAPAN NOW AMOUNTED TO ABOUT 275,000 B/D. THIS MEANT THAT OVER NEXT TWO YEARS, JAPAN COULD LOSE ABOUT 5 PERCENT OF ITS TOTAL ANNUAL OIL SUPPLIES IF EXXON IN FACT FORCED TO SUSPEND THESE SALES. INITIAL ACTION, ACCORDING EXXON, WOULD BE NON-RENEWAL IN JUNE OF CONTRACT WITH FUJI KOSAN, AN INDEPENDENT JAPANESE OIL TRADER, BUT COMPANY HAD BEEN INFORMED OF THIS ACTION LAST OCTOBER. LARGEST SALES AFFECTED WERE IDEMITSU KOSAN CONTRACT WHICH EXPIRES IN ABOUT TWO YEARS, AND KYODO OIL CONTRACT, PART OF WHICH EXPIRES IN 1975. BULK OF EXXON'S SALES TO INDEPENDENTS COULD THUS BE ENDED WITHIN TWO YEARS, THOUGH CONTRACTS FOR SMALL AMOUNT OF OIL SALES UNTIL 1980 DID EXIST.

4. EXXON SOURCE EMPHASIZED THAT COMPANY INTENDED TO FULFILL ALL OF ITS CONTRACTS. ALSO STRESSED THAT ESSO SEKIYU, EXXON'S AFFILIATE WHICH HANDLES 60 PERCENT OF COMPANY'S BUSINESS IN JAPAN, WOULD BE UNAFFECTED BY THIS POLICY.

5. COMMENT: WHILE EXXON'S POLICY OF WARNING NON-AFFILIATED CUSTOMERS NOT TO COUNT ON RENEWING THEIR CONTRACTS WILL HAVE LITTLE IMMEDIATE EFFECT ON JAPANESE OIL SUPPLIES, AFFECTED
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JAPANESE COMPANIES WILL HAVE NO CHOICE BUT TO SEEK IN NEAR FUTURE DIRECT DEALS OR OTHER SOURCES OF SUPPLY AS REPLACEMENT FOR OIL PREVIOUSLY OBTAINED FROM EXXON. JAPANESE ALSO WELL AWARE THAT FORCES WHICH CAUSED EXXON TO ADOPT PRESENT POLICY ALSO VERY MUCH AFFECT OTHER MAJOR SUPPLIERS OF OIL TO JAPANESE INDEPENDENTS.
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